



CONNECTICUT BANKERS ASSOCIATION

March 16, 2010

To: Members of the Commerce Committee

Fr: Connecticut Bankers Association
Contacts: Tom Mongellow, Fritz Conway

**Re: S.B. No. 450 AN ACT ESTABLISHING A REVOLVING LOAN FUND FOR SMALL
BUSINESSES**

Position: Oppose Tax Provisions

The Connecticut Bankers Association represents the 80 domestic banks that provide traditional banking services in the State of Connecticut. Our members range from small community banks to some of the largest banks in the country. Connecticut's banks make up just a part of the State's Financial Services Industry. We hope you would agree that this industry sector is vital to Connecticut's economic well being. We estimate that Connecticut's Financial Services Industry employs over 150,000 people in over 5,000 establishments. This industry makes up nearly 10 percent of the State's employment base and represents over 30% percent of the State's gross product.

Supportive of the Small Business Assistance Program

As an industry we have always been, and will continue to be, supportive of lending initiatives, both public and private, that help businesses and individuals obtain credit. Broader availability of credit can help to stimulate the economy by creating jobs and fueling the purchase of goods and services. That, in turn, can have a tremendous trickle down impact by increasing housing values as well as sales tax, income tax and property tax revenues. That is why we are very encouraged by the provisions within SB 450 that would create a small business assistance program. We very much look forward to working with the Committee and others to make that program a reality.

Strongly Opposed to Taxation Provisions

The Connecticut Bankers Association is, however, strongly opposed to the provisions of SB 450 that would create a tax on the bonuses of individuals who have worked for banks or bank affiliates that were recipients of the Federal TARP funds. We feel this is a unique and unfortunate singling out of a group of individuals employed by a specific industry. Even more troubling is the fact that it is an industry that plays an integral role in the State's economy. We believe this proposed tax structure is misaligned with thoughtful public policy. The provision is anti-job, anti-employee, anti-resident and anti-business. Indeed, this tax provision runs completely counter to the underlying goal of the bill, which is job creation.

Tax Provision is Anti-Jobs

Specifically, with respect to Connecticut's need to create and retain jobs, we fail to see how this proposal furthers that goal. Employers in the Financial Services Industry, like every other type of employer, seek stability and fairness, among other things, and especially when it comes to tax policy. Singling out a select group of employees and employers and imposing a retroactive and punitive tax on them cannot be viewed as fair or stable tax policy.

TARP Background

In this case, it is important to note that the capital purchase program under TARP was designed to infuse additional capital into already healthy banks. Faced with unprecedented economic turmoil, and the collapse of the capital markets, the Federal government wanted to quickly stimulate lending and liquidity. To do so, they strongly “encouraged” banks to participate in the CPP. The banking industry did not ask the government to create this program. However, many banks voluntarily followed the government’s lead. Moreover, many of those banks have since repaid the TARP funding, resulting in billions of dollars of profits to American taxpayers. Now, with SB 450 the employees of those banks (and their affiliates) will find themselves personally subject to with a retroactive and punitive tax just because they live in Connecticut and work for a TARP related entity.

Unintended Consequences of Tax Provisions

Faced with these types of legislative proposals, employers in the Financial Services Industry will surely look to alternative States when considering where to place jobs. In fact, we would suggest that consideration of these types of proposals has a chilling effect on all employers regardless of their industry sector.

We also believe this tax proposal could have a detrimental effect on our State’s budget crisis. Financial Service Industry workers – particularly the high earners, which are targeted under this proposal, pay a large percentage of the State’s income tax receipts. In fact, reports show that the top 1.3 percent of the State’s taxpayers or those earning one million dollars or more paid 35 percent of the State’s income taxes in 2007. Imposing a punitively higher tax on this type of earner could result in the relocation of some of these workers and therefore the loss of their income, employment and sales tax contributions. At a time when State government is looking to preserve programs and retain revenue, we fail to see the wisdom in this approach.

Connecticut’s tax rate is currently more favorable than New York or New Jersey, and that rate has encouraged people to stay or relocate here from throughout the tri-state area. The TARP bonus tax will eliminate that advantage for employees of businesses who received TARP funds. Those employees can easily choose to live somewhere else.

Lastly, programs like the TARP continue. As a case in point, the Obama administration wants to create a 30 billion dollar small business lending initiative by funneling paid-back TARP funds though lending institutions in the form of loans. We are quite sure that if a state TARP bonus tax goes into effect – Connecticut lenders will think twice about participating. What Bank would risk an unanticipated targeting of their employees or of the institution for future negative treatment, because it took part in a government-sponsored program? The net effect would be that Connecticut fails to capitalize on Federal stimulus dollars aimed at creating jobs, and the additional income tax revenues generated from them.

Again, the Connecticut Bankers Association stands ready to work with the Committee to make the small business assistance program a reality; however ***we strongly encourage your rejection of the TARP employee bonus tax.***